

Introductory Remarks by Commissioner Toshihide Endo
BG2C Special Online Panel Discussion
March 10th, 2020

Welcome to the "Blockchain Global Governance Conference," called "BG2C" for short.

First of all, I regret to inform you that we have changed the schedule of the physical conference sessions to April 21 to 22 due to the outbreak of the novel coronavirus (COVID-19).

We prioritize that the conference should be safe for our distinguished guests and fellow participants. Thus, it has been decided to postpone most of the sessions to April.

However, I believe that discussing the governance issue is truly imperative for all relevant blockchain stakeholders, in light of the underlying challenges in decentralized finance.

Online broadcasting today will enable safe participation and contribute to keeping our aspiration to discuss one of key agenda items in blockchain communities as initially intended.

Before moving forward to the governance talks by various stakeholders, please allow me to deliver my initial remarks from a regulator's perspective.

Call for new approaches in a decentralized financial system

For several decades, we have often undergone unique developments by building the financial architecture with great

creativity, such as the bank wire system and Internet-based banking services.

Among others, for the most recent decade, we have been truly captured by blockchain technology as this could create various opportunities to transform the whole financial landscape by means of digital currencies, low-cost cross-border payments and so forth.

In particular, a decentralized finance system underpinned by blockchain will be capable of leveraging new financial services that could operationalize without human interventions and could attain full P2P financial transactions.

Although we are still standing at the stage of transition, we are closely observing both the benefits and risks according to the degree of financial autonomy that will become "smarter" over time.

Key attributes of blockchain technology, such as enhanced privacy and immutability, will give rise to robust security in financial infrastructures. At the same time, we are mindful that the current regulatory frameworks will face lapses in regulatory enforceability by losing the ability to trace the dark deals in cyberspace as technologies for enhancing privacy develop.

A decentralized system may penetrate most of society in the future. In spite of this, we regulators need to attain key regulatory objectives, including consumer protection, financial stability and AML/CFT issues, as well as to address a wide range of social benefits given by the fruits of innovation.

Many challenges are ahead of every financial regulator, when we face a financial system that becomes highly de-centralized. As the situation goes more complex, regulators alone might not be able to sustain the financial system without proper coordination with stakeholders whom we have not met before. With this in mind, it is time to develop new approaches and to strike a better balance between promoting innovation and meeting regulatory goals.

Given this, we have raised the issue of a decentralized financial system at the G20 under Japan's presidency last year. The G20 has reached a consensus on the importance of enhancing dialogues among regulators and a wider range of stakeholders to create a new form of global cooperation while anticipating the progress of financial decentralization.

Lessons from the history of Internet

But, on top of that, how should we demonstrate this idea into practice?

Looking back at the history of the cyberspace, we see that the Internet may pose the most suggestive case since many challenges that stem from the architecture in a decentralized network have been reconciled through collective efforts made by Internet stakeholders.

It is conceived that they have passed a lot of winding roads in the history. It is better to say, "The Internet was not built in a day." After cumulative experiences that have failed in attempts of top-

down controls among jurisdictions, the Internet has reached to an idealistic model among stakeholders to bring the governance.

Current standards and protocols on the Internet have been developed at an open, global and non-profit organization, namely the Internet Engineering Task Force, "IETF." The IETF's philosophy of "rough consensus and running code" could offer a model for designing governance in a financial system that will become more decentralized.

As blockchain-based systems will have a lot in common with the Internet architecture, we should rather learn from the efforts made in other domains to reflect new types of protocols for the financial system of the future.

At the subsequent session, Internet experts will demonstrate how multiple parties with different perspectives could work together to achieve healthy governance in the community.

Closing

Today, we have invited various speakers to discuss the issues of blockchain governance and to form a new global cooperation.

Through this discussion, you will be aware of the necessity for new global networks to bring the governance to blockchain. You will also witness a historic "genesis block" for further interactions with global blockchain communities.

Finally, I would like to extend my sincere gratitude to our co-organizer, Nikkei, for hosting BG2C and FIN/SUM Blockchain and

Business, or FIN/SUM BB for short, to further explore the business use of blockchain technology and social interests.

Thank you very much for your kind attention.

Now, let me turn things over to the moderator of next session, Ms. Jemima Kelly, a reporter for the Financial Times.
